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MEMORANDUM FOR MR. DAVID E. PICKFORD
DEPARTMENT OF THE TREASURY

Subject: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

The Working Group on Alaskan Oil Exports has completed a draft working paper, including technical analysis and policy options, on the effect of lifting restrictions on the export of domestically produced oil. Attached are the Executive Summary and Policy Options sections of the report as background for discussion at the April 28 meeting of the SIG-IEP.

Charles Hill
Executive Secretary

Attachments:
As stated.

cc. NSC - Mr. Michael O. Wheeler
Agriculture - Mr. Raymond Lett
CIA - [redacted] 25X1
Commerce - Mrs. Helen Robbins
Defense - COL John Stanford
Energy - Mr. William Vitale
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
Transportation - Mrs. K. Anderson
USTR - Mr. Dennis Whitfield

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REPORT OF THE *WORKING GROUP ON ALASKAN OIL EXPORTS

DRAFT PAPER

I. Executive Summary

Issue: Should the Administration support the removal of the current statutory restraints on export of oil from the United States?

Currently about half of Alaska's 1.65 million barrel per day (b/d) production is shipped to the West Coast with the other half going to the Gulf and East Coasts. Provisions in the Export Administration Act, (EAA), Mineral Lands Leasing Act, Energy Policy and Conservation Act, Outer Continental Shelf Lands Act and Naval Petroleum Reserve Production Act restrict the export of crude oil from the United States. EAA restrictions were tightened by Congress in 1977 and 1979. Section 7/d of the Export Administration Act establishes practically impossible conditions for export of oil transported through the trans-Alaska pipeline. Elimination or amendment of EAA 7/d is therefore effectively a precondition for such exports. The other statutes do provide the President some latitute for allowing exports without Congressional action; however, most do have a Congressional override provision. The Trans-Alaska Pipeline Authorization Act contains no restrictions on export, but the restrictions contained in the MLLA on trans-Alaska pipeline oil are likely to be found to apply. This is a matter of legal dispute, however. Recent testimony by Administration officials on the EAA proposed deletion of Section 7(d).

Section 27 of the Merchant Marine Act, 1920 (Jones Act) requires carriage of Alaskan crude by US flag tankers. The Administration twice in 1982 reaffirmed its support for the Jones Act. Approximately 40 percent of the US domestic tanker fleet and 70 percent of domestic tanker capacity is currently employed in the Alaskan crude trade. The costs of shipping via US flag tankers tend to be significantly higher than foreign flag rates on comparable routes due to higher US construction and operating costs. These higher costs reduce netbacks to

*Participants include DOE, Treasury, DOD, NSC, USTR, DOT, Commerce, OMB, Interior, OPD, CEA, CIA, State

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producers, and the Federal government loses revenue as producers write off transportation costs against the windfall profits tax.

Restrictions on the export and transport of Alaskan crude create market distortions and interfere with efficient allocation of resources. However, there is disagreement as to the magnitude of these distortions and the extent to which any distortions would be rectified by lifting the ban, in view of the investments and commitments (e.g., in transportation) that have occurred because of the ban.

Removing oil export restrictions will permit the economy to utilize petroleum at a lower cost because of savings in the transportation sector. In addition, these savings will increase the wellhead value of Alaskan oil, making marginal oil fields profitable to develop. This will contribute to efficiency gains as well as enhance US energy security by reducing the net demand for Persian Gulf oil. However, DOT points out that any increase in US oil exports -- at least for a considerable number of years -- will require an equal increase in US imports of oil, thereby making the US more dependent -- rather than less dependent -- on Persian Gulf and other imported oil.

Some of the purported benefits and costs of lifting the ban will not improve efficiency within the economy but only shift income from shipping and maritime sectors to the petroleum sector. Because of the windfall profits tax and other taxes, a large portion of the income will accrue to the Federal government and State of Alaska.

Elimination of the restrictions on oil exports will require a considerable political effort and may not be possible. Maritime unions are opposed, as are some of the North Slope producers and other firms (e.g. shippers) who invested heavily in tankers and infrastructure (in part with Federally-guaranteed loans) in response to the restrictions. This opposition finds strong support in Congress, particularly in the House of Representatives. Many in Congress also argue that national security considerations dictate that domestic oil remain in the United States.

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With the degree of impact dependent upon the nature (old or new) and quantity of oil exported, the major potential benefits of eliminating or relaxing restrictions include: economic efficiency gains, possible increased investment in US hydrocarbon resource development, revenue gains to the Federal and Alaskan State governments, over the medium and long-term, enhancement of the Administration's energy security objectives, and foreign policy gains. Again, with the degree of impact dependent upon the nature and quantity of exports,the principal potential costs include: idling of tankers, outlays required to cover Federally-guaranteed loans on idled tankers, reduced employment in the maritime trades, and reduction in the availability of militarily useful tankers for defense purposes.

Supply Flows

Should exports be permitted, shipments of Alaskan crude to Gulf and East Coast refineries are expected to drop off sharply by the late 1980's. Lower transport rates on the Alaskan-Japan route compared with those for Alaska-US Gulf traffic would provide producers with higher netbacks on oil sales. It is estimated that complete removal of retrictions could provide an incentive for export of up to 1 million b/d in 1985 and 1.3 million b/d in 1990. Because of producers' current long-term tanker charter commitments, take-or-pay commitments to the trans-Panama pipeline, the fact that the Alaskan crude production in question is largely proprietary, and the very small amount of after tax profit involved, DOT estimates that exports would be smaller, ranging from 100,000 - 300,000 b/d immediately to 500,000 b/d by 1985 and 800,000 b/d after 1985.

Economic Effects

Resource Savings: More labor and capital are employed in transporting and refining Alaskan oil than would be required were the export restrictions not in effect. Rough estimates indicate that the total discounted present value of savings consequent on complete removal of the ban would total $3.6 to $5.4 billion. The Department of Transportation totally disagrees with these estimates and believes they are based on unrealistic estimates of the amounts of oil which will be exported if the ban is lifted. The Department of Interior calculates that complete lifting of the restrictions would result in an increase in the nominal value of any new oil discoveries of $20 to $50 billion over the productive life of

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the leases (i.e. 50 or so years). Real economic resource costs would also be incurred in the importation of foreign oil required to replace exported Alaskan oil. The cost of tanker transportation required for increased exports would be over $500 million per year at the one million b/d export level.

Oil Prices: Under the assumption that Alaskan exports to Pacific Rim countries would be sold at the quality-adjusted price of the Persian Gulf crudes they would replace, there would be no appreciable change in oil prices in that region. (DOT disputes the assumption and analysis). Because these exports will be shipped shorter distances, and assuming transport on less expensive foreign flag tankers than is the case under the restrictions, the wellhead price of Alaskan crudes could increase by as much as $1.85 per barrel. After tax profits, however, are estimated to improve by only $.08 to $.12 per barrel until the windfall profits tax expires. DOT notes that these asserted after tax profit effects of exporting Alaskan oil are quite small and points out that oil flows would not change unless the after tax profit effects were much higher. For example, an $.08-$.12 change would represent only 2 to 3 percent of the change that has occurred in oil prices over the past year alone.

The expense of shipping oil to the Gulf Coast has provided Alaskan producers with an incentive to discount the price of Alaskan crude sold on the West Coast. DOT points out that only one North Slope producer has actually significantly discounted its crude on the market, that it is doing so for Windfall Profits Tax bookkeeping reasons, and that that producer is likely to continue that policy even if the export ban is lifted. Elimination of the restrictions would remove the discount incentive, possibly resulting in higher wellhead prices in California, perhaps $.70 to $1/barrel by 1985. Whatever portion is not absorbed by West Coast refiners could be reflected in increased prices for heavy, high sulfur products. DOT points out that the slate of products which West Coast refiners obtain from North Slope crude contains very small fractions of heavy, high sulfur products and that it would not be possible to absorb a significant fraction of the price increase in those very small amounts of the heavy, high sulfur product. Prices for other petroleum products should be virtually unaffected by the elimination of restrictions on exports. Competitively-priced substitutes from Mexico,

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Venezuela, and the Middle East should keep the oil price stable on the Gulf Coast and in Asian markets.

Maritime Effects

About 80 US-flag tankers, providing jobs for about 4,800 seamen, are currently dependent on the Alaskan oil trade. Since on average the break-even freight rate for a Jones Act tanker is appreciably higher than that for a comparable foreign tanker on the same service, the only market for Jones Act tankers is in the protected US domestic trade. Exports of Alaskan crude would cause a decline in tanker demand, a reduction in freight rates, idling of the oversupply of tankers, and, because there are effectively no other business opportunities for the displaced vessels, owner bankruptcies. The more oil exported, the more severe the impact on the domestic tanker fleet. In the case of complete deregulation (assuming oil exports of 1 million b/d in 1985 and 1.2 million 1990), estimates are that some 67-71 tankers with approximately 4,000 to 4,200 jobs would be lost by 1990.

It should be recognized, however, that by 1990 significant tanker and employment losses, perhaps 50 tankers and 3000 jobs, would occur even if restrictions remain in effect due to phase-out of the Windfall Profits Tax. DOT disagrees with this estimate and points out that progress toward achievement of the revenue goal that would trigger the phase-out of the Windfall Profits Tax has not been sufficient to trigger phase-out before 1990. Moreover, DOT does not agree with DOE's assertion that shipment of Alaskan oil to the Gulf is attributable primarily to the Windfall Profits Tax, nor that the shipments to the Gulf will dry up when the Windfall Profits Tax terminates. Therefore, DOT estimates that tanker and employment losses that might occur before 1990 would only occur due to reduction in Alaskan production. DOT estimates those losses to be minimal -- 5 tankers and 300 jobs. Removal of restrictions could also produce offsetting creation of jobs in the oil sector. Directly at risk if exports are completely deregulated is approximately $580 million in Title XI federally-guaranteed tanker construction loans in FY 84-88. Partial deregulation reduces this liability (e.g. $74 million for exports of 200,000 b/d). Also, a West-to-East pipeline such as Northern Tier or PacTex would eliminate Panama Canal traffic.

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Militarily Useful Tankers

Some militarily useful oil tankers may be displaced from the Alaskan trade if the export ban is lifted. The more oil exported, the greater the potential displacement.

About 40-50 of the 80 tankers in the Alaskan oil trade are militarily useful. Tankers are militarily useful if they are less than 80,000 deadweight tons and coated for clean product trade. The following Table provides estimates of displacement under each option:

ESTIMATED MILITARILY USEFUL TANKER DISPLACEMENT

YEAR	NO BAN	PARTIAL BAN	NEW EXPORT	MAINTAIN BAN	
				DOE	DOT/MARAD
1983	33	0	0	0	0
1985	1-2	0-3	0	0	0
1990	1-5	21-32	21-33	26-32	8-10
TOTAL	35-39	21-35	21-33	26-32	8-10

- o Ranges represent differences between low and high oil price path oil flow estimates.
- o DOE numbers under status quo reflect expected losses due to Windfall Profits Tax effects on oil flows in 1990.
- o DOT/MARAD disagree with the DOE estimates in 1990 -- thus, the lower estimates under the status quo option.

Contingency planning assumes that the current total net availability of militarily useful tankers is about 200. Sources are: Military Sealift Command, Sealift Readiness Program, National Defense Reserve Fleet (NDRF), Effective US Controlled, and US-Flag. The US-Flag component represents about 50-60% of this capability. DOD is currently assessing requirements for wet-cargo sealift under various contingencies.

A potential measure to ameliorate the effects of lost tankers might be government acquisition and lay up in the National Defense Reserve Fleet. Depending on the pace and extent of acquisition, the procurement cost for displaced tankers under the

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worst case could be up to $100 million. This does not include additional costs for lay up and maintenance in the NDRF which are quite sensitive to assumptions such as readiness status and age of vessel.

However, acquisition of these tankers must be viewed in light of other budget priorities, the requirement for tankers, and a detailed analysis of such factors as readiness tradeoffs, crew requirements, pace of acquisition, and which tankers would be suited for lay up. Therefore, given these factors and the uncertainty surrounding the pace and extent of tanker displacement under each option, the $100 million acquisition estimate does not represent a meaningful number for use in characterizing Federal budget impacts of the various options.

Federal Budgetary Effects

To the extent that export of Alaskan crude result in an increase in wellhead prices for Alaskan and California crudes, they will generate increased revenues for the Federal Government through increased Windfall Profits Tax payments as well as increased bonus bids on new Federal OCS leases. For outlays, two accounts may be affected. To the extent that oil is exported and domestic tanker bottoms that are financed by Title XI loan guarantees default, the government will be required to make good on loan guarantee balances less any salvage value. Depending on the resulting size of the domestic tanker fleet and Defense reserve requirements, some tankers may be appropriate for the National Defense Reserve Fleet and could involve budget outlays for purchase and lay up.

As Table 1 (attached) indicates, estimated budget impacts will not have a major impact on the deficit. The Table contains estimated budget impacts over a plausible range of key variables that include a high oil price scenario in combination with high shipping rates, and a low oil price scenario with low shipping rates. For complete elimination of the ban, for both scenarios, the impacts for FY 84-88 are favorable resulting in lower deficits assuming any DOD reserve fleet costs are not substantial. The high oil price/high shipping rates scenario shows a $1.96 billion decrease in the deficit and the low oil price/low shipping rates scenario indicates a $.66 billion decrease in the deficit over this period. Individual fiscal year impacts are dependent upon the timing of tanker defaults. The only instance where a yearly negative budgetary impact is anticipated is in FY 84 under the low oil price/low shipping

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rates scenario: In this year there are some $452 million in Title XI loan defaults for CDS vessels (construction differential subsidy vessels which compete in foreign trade) dependent upon the Alaskan trade and for other domestic tankers outside of the Alaskan trade. For the 200,000 b/d export, Alaskan royalty oil export, and the new production export cases, the budget impacts are less; but all are positive over the FY 84 to FY 88 period.

Trade Effects

Exports of Alaskan oil will effect a minor reduction in the current trade deficit with Japan, with the size of the reduction determined by actual demand and the ability/willingness to back out existing supplies in favor of imports from the US. The effect on the bilateral trade deficit is roughly $900 million per 100,000 barrels per day exported at current oil prices. DOT points out that because an equivalent amount of oil would have to be imported to replace exported Alaskan oil (at approximately the same price), the overall US balance of trade position would not change significantly. Indeed, because imported oil is transported in foreign ships, export of Alaskan oil would result in a slight worsening of the overall US balance of payments. Although the general climate surrounding our commercial relations could be improved, the sale of Alaskan oil will not result in a major breakthrough in resolving current US-Japan trade frictions.

Energy Security

Exports from Alaska to the Gulf Coast could be replaced by supplies from Mexico, Venezuela, and other oil exporting countries with no net loss of oil supply to the US market. DOT points out that only a small portion of the exported Alaskan oil could be replaced by the much lower quality Mexican and Venezuelan oil; the bulk of replacement oil would come from the Persian Gulf. To the extent that domestic production is stimulated by the lifting of the export restrictions, net imports to the US might actually decline. As DOT points out, however, gross imports would increase in proportion to the amount of domestic oil exported; therefore, US reliance on foreign sources of petroleum would increase. Pacific Rim importing countries would improve their energy security by increasing diversification of their oil supplies.

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Oil in a Disruption

Removal of restrictions on exports would not affect US oil supplies in an emergency in which the IEA oil allocation system were fully operational and functional. Shares under the IEA allocation system are calculated on the basis of oil consumption in the period preceding activation of the system. If the United States were to export some of its domestically produced oil, it would be entitled to import an equivalent amount from other sources, i.e., net imports would not change. However, exports would be politically controversial.

Under an emergency scenario in which the IEA system were not activated, foreign purchasers would have to be willing to pay higher prices for US oil than consumers for exports to continue. Since oil has always been available for those willing to pay market prices, any oil exported would imply a willingness by a foreign buyer to pay more than a US buyer. The important point here is not that oil is in short supply but rather that rapidly rising oil prices would pose problems for Free World economies. These problems are reduced if remaining oil supplies are available to potential bidders on the basis of price. Hence, lifting export restrictions has a positive effect.

DOT points out that in a disruption in which the IEA system was not activated or not workable, Alaskan oil exports might have to be recalled and diverted to domestic refineries. However, the tanker transportation system now in place to distribute that oil would have been significantly reduced in capability. Reconstitution of the required transportation system would entail delays which could be critical.

Foreign Policy

Lifting the restrictions on crude oil exports will provide added concrete evidence of the US commitment to improving allied energy security by removing barriers to trade. Foreign investment in development of US oil resources could be enhanced, and this would underscore the long-term nature of our interest in energy cooperation. Any condition providing for withholding of shipments under emergency conditions (e.g., threat to national security, supply shortage, etc.) would reduce foreign policy benefits.

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While a number of Pacific Rim countries, such as Korea and Thailand, count as potential importers, the major market for Alaskan oil is Japan. During the initial meeting of the US-Japan Energy Group (April 6-7), the Japanese evinced keen interest in the availability of US crude exports and estimated their requirement for Alaskan-type crude at 600,000 b/d in the year 2000. In the March-April US-Korea Bilateral Economic Consultations, the Koreans also expressed strong interest in Alaskan oil and requested that the US lift its restrictions on exports.

Some believe that oil exports might be used as leverage for increasing exports of US gas, coal and other products to Japan and that this could help overcome Congressional opposition. Others feel it critical to avoid creating expectations of significant progress on US-Japanese trade problems as a result of sales of Alaskan oil and to avoid the pitfalls of government-to-government energy deals instead of relying on the market. If export of new oil is permitted, importing countries/companies may be encouraged to invest in US energy resources. In recent discussions, however, the Japanese made clear that they have long-term contracts for gas and coal which will meet their needs through the 1990's and did not express any interest in investing in US energy resource development.

DOT points out that exports of oil to Japan and other Pacific Rim nations would reduce the quantities of oil those nations now obtain from other nations, predominantly Saudi Arabia and other Arab OPEC nations. This loss of business, depending on its magnitude, could create friction in Arab-US and Arab-Japan relations. Because of the small quantities which would be involved initially relative to OPEC supplies, as well as the likelihood that new contracts would be phased in, State does not believe this to be a significant problem.

A decision to permit the export of Alaskan oil could benefit Mexico and other major exporters to the United States as it would increase their potential for additional oil sales to the US. Mexico does, however, have a political commitment not to ship more than 50 percent of its exports to any single country. Facing loss of revenue from the trans-isthmus pipeline, Panama has already expressed its objection.

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Environment

Lifting the ban on exports would reduce the relatively small risk of exposure of the southern Alaskan and Continental West Coast to spills from Alaskan crude tankers in transit to the Panama Canal. Imports will presumably increase elsewhere, however, with attendant spill risks. However, to the degree that exports stimulate additional drilling in Alaska and California, the risk of damage to the environment, particularly in Northern Alaska, increases.

Status of Legislation

The Administration has proposed removal of the restriction on Alaskan oil exports in Section 7(d) of the Export Administration Act of 1979, which is due for renewal in September 1983. The proposal encountered considerable opposition in the House of Representatives indicating the controversial nature of the exports issue. Less stringent constraints remain in other statutes. Congressmen McKinney and Wolpe have introduced a bill (HR-1197) calling for the indefinite extension of the EAA Section 7(d) restrictions. We understand it is co-sponsored by roughly 200 other House members. The controversial nature of the oil export issue could cause difficulty in moving the other Administration initiatives on the EAA through the Congress.

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Table I

Federal Budgetary Impacts Under a Complete Lifting of the Current Export Ban: Change in Receipts and Outlays From Current Policy Ban (Billions of Nominal $)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 84-88
High Oil Price/High Shipping Rates						
WPT Receipts	.4 1/	.3	.4	.4	.4	1.8
OCS Bonuses on New Leases 2/	.30	.15	.20	.05	N/A	.70
Title XI Outlays 3/	.56	.13	.07	-.01	-.17	.58
Possible DOD Purchase/Lay up	N/A	N/A	N/A	N/A	N/A	N/A
Net Budget Effect (negative indicates deficit increases)	.12	.36	.49	.44	.55	1.96
Low Oil Price/Low Shipping Rates						
WPT Receipts	.2	.1	.1	.2	.3	.8
OCS Bonuses on New Leases 2/	.15	.10	.15	.05	N/A	.45
Title XI Outlays 3/	.56	.01	.07	0	-.06	.58
Possible DOD Purchase/Lay up	N/A	N/A	N/A	N/A	N/A	N/A
Net Budget Effect (negative indicates deficit increases)	-.23	.15	.19	.23	.32	.66

1/ Treasury rounds to the nearest $100 million.

2/ Additional royalty receipts in the 1990's from expected production on new leases are likely to be in the range of $.10 to $.25 billion annually under the high oil price/high shipping rates scenario and $.05 to $.15 billion annually under the low oil price/low shipping rates scenario.

3/ Assumes defaults on Alaskan tankers will spill over and cause defaults on CDS vessels dependent upon the Alaskan trade and other domestic vessels. The values presented net out defaults that will occur under a continuation of the ban and therefore negative outlays are possible in cases where defaults under the ban exceed defaults under alternative policy options for any given year.

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REPORT OF THE WORKING GROUP ON ALASKAN OIL EXPORTS

DRAFT WORKING PAPER

II. Policy Options

Option 1. Complete removal of all existing statutory restraints on the export of crude oil produced in the US.

Pros

-- Consistent with the Administration's emphasis on allowing free play of market forces.

-- Promotes more efficient allocation of resources.

-- Supports the Administration's energy security objectives.

-- Would provide an incentive for greater investment (foreign and domestic) in US oil resource development.

-- Would be viewed favorably by prospective importers, such as Japan and Korea, as a means to increase energy security through diversification of supply.

-- To the extent that wellhead prices rise, would generate increased Federal revenues through larger windfall profits tax payments and bonus bids on new Federal leases.

-- Has favorable though small budgetary impact for FY84-88.

-- Would reduce the US trade deficit with Japan and increase our trade with Korea (now essentially in balance), although it would have no effect on the overall US trade balance.

-- Would win favor from OECD countries as an additional signal of US commitment to international energy cooperation.

Cons

-- Substantial adverse effect on US maritime interests (idling of tankers, reduced employment, reduction in the availability, or USG purchase and lay up,

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of militarily useful tankers) with resultant strong political opposition.

-- Would be interpreted by maritime unions as a repudiation of the Administration's support for the Jones Act.

-- Possible adverse impact on firms which have invested heavily in tankers and other infrastructure geared to retention of US crude for the domestic market.

-- Would require budget outlays for defaults on Title XI loans and, perhaps, purchase and lay up of militarily useful tankers for defense purposes.

-- Would provoke opposition from Panama which stands to lose revenues from the trans-isthmus pipeline.

-- Would tend to negatively affect the US balance of payments to the extent that exports are carried on foreign rather than on domestic flag vessels.

-- Could produce some increase in West Coast oil prices.

Option 2. Allow export of a designated amount of oil (e.g., 200,000 b/d) from current production plus export of oil from new fields (in Alaska and elsewhere in the US).

Pros

(Compared with status quo, provides same benefits as Option 1 in lesser degree)

-- Limits damage to US maritime interests compared with removal of all restraints.

-- Provides stronger incentives for investment (domestic and foreign) for new US oil resource development (to the neglect of existing fields).

Cons

(Compared with status quo, has same adverse effects in lesser degree)

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-- Could trigger pressures, including Congressional, for mechanism(s) to allocate export rights and quantities.

Option 3. Allow export of a designated incremental amount of oil (e.g., 200,000 b/d) resulting from foreign investment in TAP's line flow capacity plus export of oil from new fields (in Alaska and elsewhere in the US).

Pros

(Compared with status quo, provides same benefits as Option 1 in lesser degree)

-- Would substantially reduce adverse impact on the maritime industry compared with complete removal of restrictions.

-- Would require no immediate budgetary outlays to cover Title XI loan defaults or acquisition of tankers for defense purposes.

-- Provides stronger incentive for foreign investment in new oil production and transportation.

Cons

(Compared with status quo has same adverse effect as Option 1 but in substantially lesser degree)

Option 4. Allow export of Alaskan State royalty oil (currently about 200,000 b/d) and production from new fields (in Alaska and elsewhere in the US).

Pros

(Compared with status quo, provides same benefits as Option 1 in lesser degree)

-- Would reduce adverse impact on maritime industry.

-- Would require no immediate budgetary outlays to cover Title XI loan defaults or acquisition of tankers for defense purposes.

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-- Provides incentive for investment (foreign and domestic) in new US oil resource development.

Cons

(Compared with status quo, has same adverse effects as Option 1 but in substantially lesser degree)

-- Could evoke complaints of discrimination from other states with regard to allowing exports only of Alaskan State royalty oil.

-- While Congress may agree to the export of royalty oil, it is unlikely to give a blank check for export from all new discoveries.

Option 5(a). Allow export of production above the level of existing Alaskan production (1.65 million b/d), i.e. no exports unless new production more than offsets declines in production from existing fields.

Pros

(Compared with status quo, provides same benefits as Option 1 but in substantially lesser degree)

-- Would protect maritime industry against reduction in transport requirements for Alaskan oil. (From the point of view of the maritime industry, this option would be the same or better than the status quo).

Most industry forecasts call for Alaskan production to peak at about 1.8 million b/d in 1986 or 1987, then decline to about 1.2 to 1.4 million b/d by 1990. Therefore, through at least 1988, as much as 150,000 b/d could be exported under this option, even if no significant new discoveries are made. Current industry projections show new Beaufort Sea production beginning in about 1991. Therefore, there might be only a short 3-year hiatus in exports between the time production declines below 1.65 million b/d and the time it recovers as a result of Beaufort Sea production.

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Cons

-- May well prevent any export of US oil. (Production from new fields is uncertain but may not offset the decline in production in existing fields expected to occur during the remainder of the 80's.)

Option 5(b). (Suggested by OMB). Allow export of that portion of Alaskan crude production which exceeds 1.5 million barrels per day.

This option is similar in effect to Option 5(a) except that slightly more export of production would be permitted.

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